

## **2207 Executive Summary**

Section 2207 of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Public Law 108-106), requires the Secretary of State to submit a quarterly report to Congress outlining the current conditions for programs and initiatives supported by the specific appropriations dedicated to the Iraq Relief and Reconstruction Fund (IRRF). The Office of Management and Budget (OMB) submitted the first three quarterly reports to Congress, with the last OMB submission occurring July 2, 2004. Subsequent reports have been submitted by the Department of State, beginning October 5, 2004.

### ***2006: A Year of Transition***

The first quarter of 2006 marks the beginning of a year of significant transition for the Government of Iraq (GOI), and a decisive phase in U.S. involvement. The success of the October 2005 Constitutional Referendum, and the subsequent elections of December 2005, have instilled a sense of hope for the future of Iraq. Political parties and leaders entered into negotiations to form the executive branch of the new Iraqi Government, despite terrorist provocations. The U.S. remained actively and constantly engaged in supporting the desire of Iraqis for the speedy formation of an inclusive, national unity government that serves the interest of all Iraqis. The dynamics of political engagement will undergo a fundamental shift as Iraqis increasingly take the lead in crucial roles of establishing security, and building a thriving economy.

2006 is a year of transition for the Iraq Relief and Reconstruction Fund as well. The IRRF has been essential to providing the foundation upon which the newly elected GOI can build its capacity to provide services to Iraqi citizens and to govern effectively. In 2006, many IRRF infrastructure projects will be completed; for example, we expect all major IRRF-funded electricity generation and sewerage projects to be completed by the end of the year. In addition, the IRRF is adapting to meet the needs of the GOI, and remaining funds are being used in ways that reflect lessons learned to date and maximize their effectiveness.

## *Challenges*

While the IRRF's achievements are impressive when viewed in the current context, the security environment and insurgent attacks against critical infrastructure and on-going projects have reduced the impact of IRRF projects to improve delivery of basic services. Most notably, work in the oil and electricity sectors has been challenged by several ongoing factors: (1) thanks to decades of mismanagement by the previous regime, dilapidated, inadequate infrastructure and poor maintenance practices that continue to hamper output; (2) targeted attacks on Iraq's infrastructure by terrorists who seek to undermine the Iraqi government and call into question its ability to provide essential services for the Iraqi people; and (3) dramatic increases in demand, driven by the liberalization of trade and increased salaries of Iraqis but unchecked by the implementation of market-based pricing.

## *Capacity Development*

Helping Iraq develop its capacity to govern will be a cornerstone of the country's development. The National Capacity Development (NCD) initiative coordinated among USG and donor entities, including the U.N., World Bank and other bilateral donors, has made significant progress this quarter. The GOI continues to express strong support for this effort. In anticipation of the change in administration, the Ministries have developed with our support comprehensive plans for transition to the new government. More broadly, the USG-led NCD initiative is providing immediate and medium-term support to the GOI at all levels. NCD is focused on assisting Iraqis to build an indigenous and sustainable program to strengthen the institutions, provide training for public servants at all levels, and reintroduce the concept of a civil service that ensures fair and effective services for all Iraqis.

Through the NCD initiative, assistance to establish best practices within Ministries is under development. In support of this effort, a Ministerial Coordination Team (MCT) was established within the U.S. Mission to coordinate and support efforts to enhance the capacity of Iraqi Ministries. The MCT supports the work of Ministerial Assistance Teams (MATs) that are dedicated to key ministries, assisting them in identifying strategies and programs for improving their capability and effectiveness. These efforts will be combined with capacity-building activities at national and regional governmental training institutions and will include programs aimed at building leadership skills and improving core functions, with specialized

training teams to provide on-site support in ministries. By focusing on Iraqi training institutions, the emphasis is on building sustainable Iraqi-owned programs that will continue well beyond U.S. assistance programs and allow other donors additional mechanisms to contribute support, including membership in MATs.

### ***Provincial Reconstruction Teams (PRTs)***

Developing effective governance in Iraq is a key component in helping Iraq increase its self-reliance and combat the insurgency. To be successful, this effort needs a responsive and effective representative government at both the national and provincial levels. The new Constitution devolves significant governing responsibilities to the provinces. PRTs are designed to provide training and development efforts at the provincial level, and provide a link between provincial-level and national-level efforts. The PRTs implement our integrated strategy along Political, Economic and Security tracks in cooperation with our Iraqi, Coalition and international community partners. The PRTs are intended to strengthen public trust in national and local institutions by building governance capacity and effectiveness. Four PRTs are currently operational in Kirkuk, Ninewah, Hilla and Baghdad governorates. Additional PRTs will be put in place; eight will be U.S.-led, with the others led by Coalition partners or Iraqis. The UK and Italy have agreed to lead the PRTs in Basrah and Dhi Qar governorates, respectively. These Coalition-led PRTs would follow a functional structure similar to those led by the United States. Other coalition partners have expressed an interest in potentially leading or participating in PRTs in other governorates.

PRTs build on the successful establishment of the Iraqi-led Provincial Reconstruction Development Committees (PRDCs), which have now been set up in each of the governorates. Under the authority of the Provincial Councils, PRDCs determine local government and community development and reconstruction priorities and demonstrate the success of the democratic system at the local level through a transparent and inclusive process to address the needs of the citizens. The PRTs work hand-in-hand with the PRDCs to help develop the skills required to plan development programs, identify resources to implement programs and monitor the implementation of projects. This comprehensive project planning includes planning for the subsequent sustainment of these projects, which will be required after their completion. In addition, the PRTs provide valuable support in concert with their

counterparts at the Ministerial Assistance Teams in Baghdad to promote constructive relations and problem solving approaches.

### ***IRRF Projects***

The process of IRRF close out has begun, and many IRRF infrastructure projects will be completed by December 31, 2006. As detailed in Appendix I, a number of IRRF projects are ending this quarter or next, including projects to build border forts, provide the Iraqi Armed forces with new facilities, build the Advanced First Responders' Network, improve educational management and improve water conservation and irrigation, solid waste management and electricity security. By the end of the year, we also expect to have completed IRRF electricity generation and sewage projects.

As projects enter their final phases, IRRF obligations have accelerated consistent with our plans on how we intend to manage IRRF resources, with over \$16.3 billion of the total \$18.4 billion obligated as of March 31, 2006. For remaining unobligated funds, the administration is focusing on projects which have the following characteristics:

- have fixed cost contracts, as opposed to the design/build cost-plus contracts of the past;
- use direct contracting with Iraqi firms;
- focus on delivery of the services to end users;
- are smaller and provide more immediate and visible impacts;
- increase resiliency and redundancy of infrastructure to enhance security;
- recognize the importance in operation and maintenance and sustainment; and
- build Iraqi administrative and technical capacity.

Involvement of large multi-national firms has been reduced, and more work is directed to Iraqi firms with a proven record of success as contractors. A "cost to complete" system has been instituted to ensure sufficient funds are available to complete projects in the future. We continue to adapt the program

based on lessons learned. We recognize the environment is dynamic and fluid in Iraq and continue to ensure responsible and effective use of the limited resources to achieve lasting and tangible results.

### ***Sustainability***

With the majority of IRRF infrastructure projects nearing completion, the reconstruction efforts of the GOI, the USG, and our coalition partners are shifting to focusing on sustainability.

Significant Infrastructure Capacity Development (ICD) and operations and maintenance (O&M) activities to support the sustainable operations of USG-funded infrastructure have been initiated through IRRF funds, encompassing a wide range of activities including: technical support; training in management processes and business systems; continued training of facility staff; service contracts to carry out required maintenance activities; and procurement of critical spare parts and consumables.

These ICD and O&M activities are helping to further prepare and strengthen the Iraqi ministries to assume management responsibilities for completed infrastructure which the USG has either constructed or refurbished and transferred to the GOI. The U.S. is helping to augment the GOI's sustainment program through the provision of services for the proper operation and maintenance of infrastructure.

### ***Recent Project Approvals***

During this quarter, IRMO approved \$627 million in projects. They highlight the new emphasis in our assistance effort including:

- \$270 million for transmission lines that will increase service to Baghdad, provide added resilience against insurgent attacks, and add stability to the system.
- \$206 million for smaller potable water projects that will more rapidly deliver clean water to the citizens of Baghdad, Basra, and Sinjar.
- \$70 million for irrigation projects, which will control drainage flow south of the Euphrates River and will increase irrigated land by 220,000

hectares, as well as reducing the salinity of adjacent rivers, thus enhancing the yield of existing crops.

- \$25 million for the completion of mechanical and electrical repairs at Ramadi Barrage, Adhaim Dam, and Diyala Weir.
- \$37 million for sustainment of wastewater infrastructure and the City of Fallujah Wastewater Project.
- \$16 million for overhauls of four gas turbines used for electrical generation in Qudas, Kirkuk, and Baiji.
- \$3.2 million to automate the stock exchange.

During this quarter, the Mission and MNF-I developed an Energy Action Plan, which was agreed with the GOI, to provide a comprehensive and detailed approach to addressing multiple challenges in the energy sector by mid-summer. The integrity of critical infrastructure is improving. In the last three months, an intensive effort focused on repairs, maintenance, fuel issues and security increased the hours of power provided to Baghdad. Attacks and sabotage combined with bad weather reduced oil exports at the beginning of January, but exports are recovering and have now reached an average of over 1.4 million barrels per day. Project completions in the coming months, combined with the additional projects approved this quarter, will play a significant role in helping Iraq meet the immediate challenges of improving electrical service and ensuring consistent oil exports and revenues to support the budget.

### ***Primary Health Clinics***

Due to a lack of progress as a result of increased security costs and other factors, three task orders under the design-build contract for construction of Primary Health Centers (PHCs) were terminated for convenience. The modified contract called for the completion of 141 PHCs over a two-year period. To date, only six fully completed PHCs have been formally turned over to the Ministry of Health. Fourteen clinics are approximately ninety-five percent complete and a number of additional facilities are at various stages of completion. The U.S. is working directly with the GOI to seek alternative methods to complete as many of the planned remaining 121 PHCs as possible through direct contracts. The U.S. has purchased over \$117 million of

medical equipment for use in clinics. It will be transferred to the Iraqi Ministry of Health to be fully utilized in improving quality of health care delivery to Iraqis.

### ***IRRF Reallocations During The Quarter***

There were no Congressional Notifications (CNs) regarding the reallocation of IRRF funds submitted to Congress during the last quarter. This quarterly report will serve as notification of \$49.150 million as follows:

- \$9.0 million to be taken out of Civil Aviation and put into Railroad Rehab & Restoration.
- A total of \$17 million will be taken out of Emergency Supplies of Refined Petroleum Products and reallocated to: Health O&M (\$7.3 million); Iraqi Telecom and Postal Corp O&M (\$800,000); Iraqi Communications System (\$1.8 million); Consolidated Fiber Network (\$1 million); and Oil Infrastructure Security (\$6.1 million).
- \$2.2 million to be taken out of Public Buildings Construction and Repair and put into Roads and Bridges.
- \$16.0 million to be taken out of Electricity Transmission and put into Electricity Generation.
- \$4.950 million transferred in from the Economic Support Fund, as required in P.L. 109-102, for the Marla Ruzicka Iraqi War Victims Fund.

### ***International Donor Assistance***

With the help of U.S. advisors, the Ministry of Planning and Development Coordination has completed plans to eliminate the major hurdles faced by donors on the ground in Baghdad. Plans are being implemented to provide security, housing and office space to potential donors inside the International Zone. The accommodations, called “Donor Village,” are located inside the International Zone. Donors can occupy space, and they will reimburse the USG for billeting arrangements, office space, and meals. The cost-prohibitive nature of setting-up individual offices and providing security for accommodations had previously been a major impediment to obtaining further donor assistance.

## ***Conclusion***

The USG, working closely with the new Iraqi government and the donor community, intends to make 2006 a pivotal year in accelerating the transition in Iraq. The focus is on building the capacity of a responsible Iraqi government at the national and provincial levels. Such a government will be able to sustain its security forces, combat the insurgency and provide for its citizens. Continued support in strengthening their ability to deliver essential services and show economic progress remains essential in isolating the insurgency and undermining the efforts of the terrorists. IRRF funds continue to play a vital role in promoting stability, reconstruction, and reform in Iraq.